

ELECTRONICS MART INDIA LIMITED

...Growth Levers Intact

LKP
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Electronics Mart (EMIL) had a steady quarter largely on anticipated lines despite a truncated summer earlier and shift of festive season largely in Q3FY24. Sales were expected to remain weak (+7% YoY) mainly on account of shift in festive season to Q3 and amidst weak demand – still better than expectations. Strong performance on margins for yet another quarter despite opening new stores further supported from sale of extended warranties helped improve gross margins. Even after absence of festival period in Q2FY24, EMIL managed to achieve 8.4% store sales growth in H1FY24 and 2% in Q2FY24. It is expected to do well in Q3FY24 filled with festivities and build up to that has been positive. PAT in Q2FY24 was up 55% YoY. 15 new stores were added in H1 FY24 and expect to open another 14 new stores in H2FY24. Management highlighted that the scope to expand around the Delhi/ NCR remains quite large with adjoining areas providing ample opportunities. Strong performance seen on the operating cashflow which stood at ₹2.8bn in H1FY24 vs. outflow of ₹6mn for FY23.

Overall, the company endeavour remains to ramp up its store performance with various initiatives. EMIL with its approach provides strong growth visibility ahead with stable margins and return ratios. EMIL's cluster-focused expansion strategy will help the company to build depth and scale in its targeted geographies. EMIL's plan to build its presence in the NCR region will provide diversification benefits from its current concentrated presence in South-India and with better productivity ahead as store normalises would improve margins in Delhi/NCR region. Considering the H1FY24 performance and expectation of better H2FY24 loaded with festivities we remain positive ahead and tweaked estimates accordingly. We maintain Buy on the stock with revised PT of ₹195.

Q2FY23 Result Summary

Revenues of ₹13.1bn, +7% YoY. Revenue contribution from large appliance/ Mobiles/ small appliances, IT and others stood at 37%/48%/15%. Gross Margins at 14.9%, +125bps YoY/ +35bps QoQ basis.. EBIDTA came at ₹966mn, +28% YoY. EBIDTAM stood at 7.4%, +122bps YoY largely contributed due to sales of higher margins ACs further supported from sale of extended warranties and lower ad spends. PAT came at ₹374mn, +55% YoY. On balance sheet front Inventories / Trade Receivables / Trade Payables stood at ₹7.4bn / ₹1.4bn / ₹379mn at the end of H1FY24 vs. ₹7.7bn / ₹1.4bn / ₹246mn at the end of FY23.

Key Financials	FY21	FY22	FY23	FY24E	FY25E
Total Sales (₹ mn)	32,019	43,493	54,457	66,054	77,745
EBITDA Margins (%)	6.4	6.7	6.2	6.9	7.1
PAT Margins (%)	1.8	2.4	2.3	2.6	2.8
EPS (₹)	2.0	3.5	3.2	4.4	5.6
P/E (x)	87.5	49.4	53.6	38.9	30.8
P/BV (x)	10.4	8.6	5.6	8.2	6.5
EV/EBITDA (x)	27.7	19.5	21.1	16.0	13.2
RoE (%)	12.7	19.1	13.8	17.1	23.6
RoCE (%)	14.2	18.8	13.3	22.8	24.1

Rating	BUY
Current Market Price (₹)	171
12 M Price Target (₹)	195
Potential upside (%)	14

Stock Data

Sector :	Consumer
FV (₹) :	10
Total Market Cap (₹ bn) :	66
Free Float Market Cap (₹ bn) :	14
52-Week High / Low (₹)	126 / 62
9M Avg. Dly Traded Volume (in lakh)	12
BSE Code / NSE Symbol	543626 / EMIL
Bloomberg :	EMIL IN

Shareholding Pattern

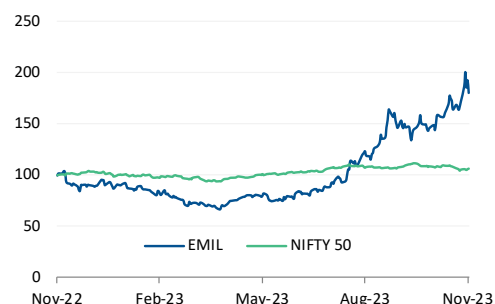
(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	72.97	77.97	77.97	77.97
FPIs	4.51	3.44	3.38	3.11
MFs	14.43	9.88	8.79	7.65
Insurance	0.22	0.65	1.03	0.98
Others	7.87	8.06	8.83	10.29

Source: BSE

Price Performance

(%)	1M	3M	6M	9M
EMIL	21.2%	49.6%	125.8%	89.5%
Nifty 50	-1.5%	-2.5%	6.0%	3.1%

* To date / current date : November 3, 2023

EMIL vs Nifty 50

Cash & Cash Equivalents decreased from ₹2.0bn in FY23 to ₹517mn in H1FY24 mainly due to debt repayment. Operating Cashflow stood at ₹2.8bn in H1FY24 vs. outflow of ₹6mn for FY23. Capex for H1FY24 stood at ₹601mn vs. ₹2.4bn for FY23. Total borrowing reduced from ₹7.3bn in FY23 to ₹3.6bn in 1HFY24.

Outlook and Valuation

The company has clear focus on premium products and strong product depth with only top brands in various categories, 2) focuses on retailing top brands rather than adding private labels to avoid discounting and inventory issues, 3) simple and flat floor and corporate reporting structure, which enables cost controls, quick decision making and higher employee incentives, 4) clear dominance in two states with strong growth potential in the third, which is a much larger market, 5) enjoys superior store metrics than peers, led by higher realisations, higher bill sizes and superior product mix which drive higher store throughputs, 6) robust relationships with top brands in all electronics categories. Considering the H1FY24 performance and expectation of better H2FY24 loaded with festivities we remain positive ahead and tweaked estimates accordingly. We maintain Buy on the stock with revised PT of ₹195.

Key Risks:

1) Intensified aggression by larger players like Croma, Reliance and Vijay Sales, 2) muted demand conditions driving down trading or higher discounting, and 3) brand acceptance issues in the new Delhi/NCR market.

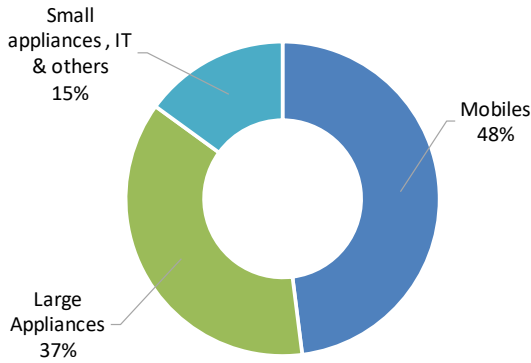
Exhibit 1: Quarterly performance

(₹ mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY23	QoQ(%)
Net Sales	13,132	12,277	7	16,891	-22.3
COGS	11,175	10,602	-	14,434	-
Gross Profit	1,957	1,675	16.8	2,457	-20.4
Gross margin (%)	14.9	13.6	-	15	-
Employee cost	260	209	24.3	276	-5.9
Other Expenditure	731	713	2.5	881	-17.1
EBITDA	966	754	28.2	1,300	-25.7
Margins (%)	7.4	6.1	122	8	-
Depreciation	255	207	23.1	246	3.5
Interest	235	230	2.1	271	-13.2
Other Income	25	7	238.1	25	-0.8
PBT	501	324	54.8	808	-38
Tax	127	83	54.4	205	-37.9
Rate (%)	25	25	-	25	-
Adjusted PAT	374	241	54.9	603	-38
Pat Margin (%)	2.8	2	-	3.6	-
No of shares	385	300	-	385	-
EPS (₹)	1.0	0.8	20.8	1.6	-

Source: Company, LKP Research

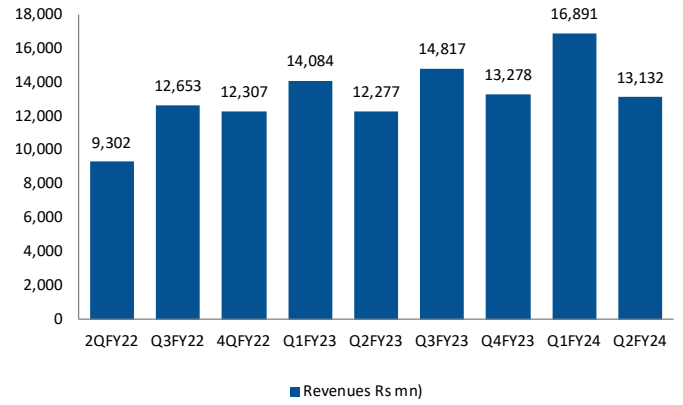
Financials in charts

Exhibit 2: Revenue Split



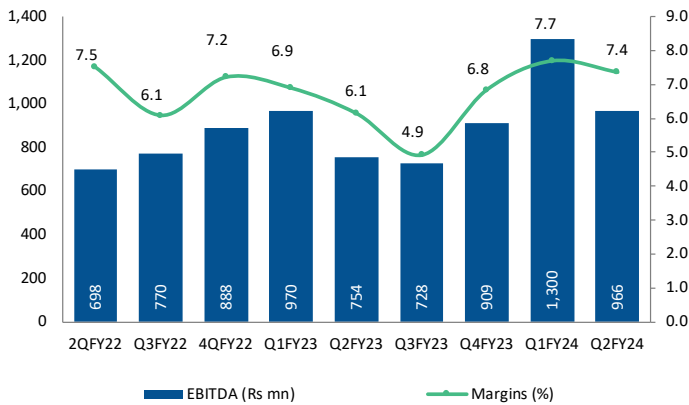
Source: Company, LKP Research

Exhibit 3: Revenues Trend



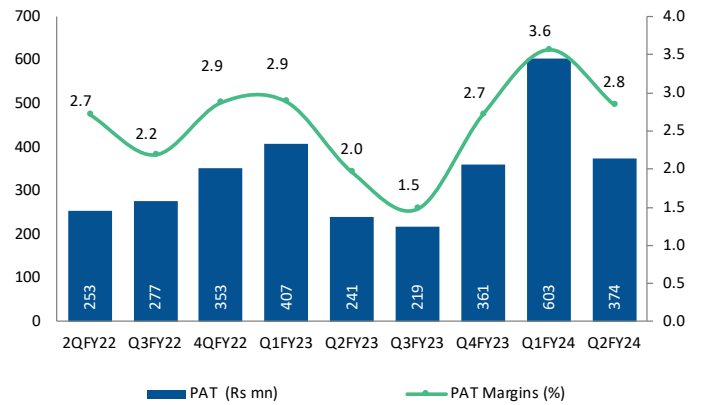
Source: LKP Research

Exhibit 4: EBITDA & Margins



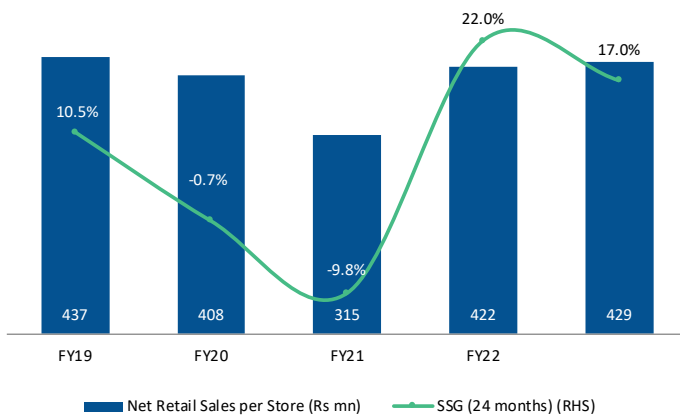
Source: LKP Research

Exhibit 5: PAT & PAT Margins



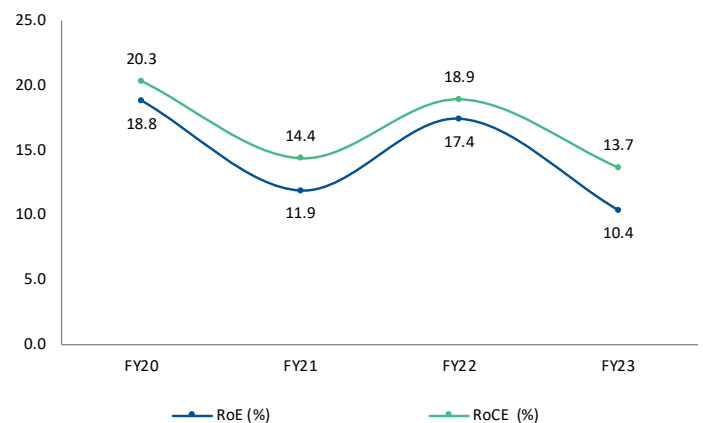
Source: LKP Research

Exhibit 6: Net retail sales per store and SSG growth



Source: LKP Research

Exhibit 7: RoE & RoCE



Source: LKP Research

Q2FY23 conference call KTAS

- Revenue contribution from large appliance/ Mobiles/ small appliances, IT and others stood at 37%/48%/15%.
- SSSG 2% in Q2FY24/ AC growing at 28-30% and similar for mobiles.
- Store Additions: In H1FY24 company opened 14 new stores and currently have 140 stores, 127 of which are multi-brand stores and, 13 are exclusive brand outlets.
- Leased/Owned/ POPL: Out of 140 stores, 119 stores are leased, 11 are owned, and 10 are partly owned and partly leased (POPL).
- Cities Present: Present in 52 cities across four states
- Future store addition plans: Expect to add 14 stores in H2FY24.
- Capex: done ₹570 mn in H1FY24 and ₹300 odd mn to be spent in H2 for 5 stores in pipeline
- Expected to do well in Q3 as it is filled with festivities.
- Card payments is 90% and cash is less than 10% and EMI and finance would be 55% plus.
- Market has been slower in some clusters on demand and didn't perform the way it should be in like Kerala/East India.

Exhibit 8: Profit and Loss Statement - Consolidated

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
Total Income	32,019	43,493	54,457	66,054	77,745
Raw material Cost	27,673	37,554	47,050	56,212	66,006
Employee Cost	614	788	940	1,321	1,563
Other expenses	1,692	2,232	3,106	3,963	4,665
Total operating Expenses	29,980	40,574	51,096	61,496	72,233
EBITDA	2,039	2,919	3,361	4,558	5,512
<i>EBITDA Margins(%)</i>	6.4	6.7	6.2	6.9	7.1
Depreciation & Amortisation	581	713	854	1,016	1,209
EBIT	1,457	2,206	2,507	3,542	4,303
Interest	717	846	985	1,428	1,618
Other Income	55	38	110	134	158
Recurring PBT	796	1,398	1,632	2,248	2,842
Add: Extraordinaries	-	-	-	-	-
Add: Share in associates					
PBT	796	1,398	1,632	2,248	2,842
Less: Taxes	209	359	404	556	703
Less: Minority Interest & Share in associates					
Net Income (Reported)	586	1,039	1,228	1,692	2,139
Adjusted Net Income	586	1,039	1,228	1,692	2,139

Exhibit 9: Balance Sheet

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
Assets					
Total Current Assets	8,363	10,056	15,128	14,803	16,889
of which cash & cash eqv.	350	344	2,032	837	926
Total Current Liabilities & Provisions	4,837	6,418	7,825	8,128	8,033
Net Current Assets	3,526	3,637	7,303	6,675	8,856
Investments	-	-	-	-	-
Net Fixed Assets	6,736	7,849	8,638	8,626	8,748
Capital Work-in-Progress	20	238	246	253	261
Goodwill	-	-	-	-	-
Total Assets	10,283	11,725	16,187	15,554	17,865
Liabilities					
Borrowings	5,479	5,936	7,271	7,843	8,043
Deferred Tax Liability	(116)	(176)	(251)	(276)	(303)
Minority Interest	-	-	-	-	-
Equity Share Capital	3,000	3,000	3,847	3,847	3,847
Face Value per share (Rs)	10.0	10.0	10.0	10.0	10.0
Reserves & Surplus	1,919	2,965	7,996	4,139	6,277
Net Worth	4,919	5,965	11,843	7,986	10,125
Total Liabilities	10,283	11,725	16,187	15,554	17,865

Exhibit 10: Key Ratios

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data (in ₹)					
AEPS	2.0	3.5	3.2	4.4	5.6
CEPS	1.2	1.1	5.3	2.2	2.4
BVPS	16.4	19.9	30.8	20.8	26.3
DPS	-	-	-	-	-
Growth Ratios (%)					
Total Revenues	0.9	35.8	25.2	21.3	17.7
EBITDA	(10.4)	43.2	15.1	35.6	20.9
PAT	(34.5)	77.2	18.2	37.8	26.4
AEPS	(34.5)	77.2	(7.8)	37.8	26.4
CEPS	(59.8)	(1.8)	360.5	(58.8)	10.7
Valuation Ratios					
P/E	87.5	49.4	53.6	38.9	30.8
P/CEPS	146.5	149.1	32.4	78.6	71.0
P/BV	10.4	8.6	5.6	8.2	6.5
EV / EBITDA	27.7	19.5	21.1	16.0	13.2
EV / Sales	1.8	1.3	1.3	1.1	0.9
Operating Ratio					
Raw Material/Sales (%)	86.4	86.3	86.4	85.1	84.9
SG&A/Sales (%)	5.3	5.1	5.7	6.0	6.0
Effective Tax Rate (%)	26.3	25.7	24.8	24.8	24.8
NWC / Total Assets (%)	30.9	28.1	32.6	37.5	44.4
Inventory Turnover (days)	63.0	60.0	51.8	48.0	48.0
Receivables (days)	11.0	9.0	9.3	9.3	9.3
Payables (days)	1.0	2.0	1.8	1.8	2.3
D/E Ratio (x)	1.1	1.0	0.6	1.0	0.8
Return/Profitability Ratio (%)					
RoCE	14.2	18.8	13.3	22.8	24.1
RoNW	12.7	19.1	13.8	17.1	23.6
Dividend Payout Ratio	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0	0.0
PAT Margins	1.8	2.4	2.3	2.6	2.8
EBITDA Margins	6.4	6.7	6.2	6.9	7.1

Exhibit 11: Cash Flow Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	796	1,398	1,632	2,248	2,842
Depreciation	581	713	854	1,016	1,209
Chng in working capital	(1,258)	(1,386)	(2,870)	(510)	(1,533)
Tax paid	(201)	(376)	(485)	(556)	(703)
Cash flow from operations (a)	2,099	2,923	3,349	4,463	4,934
Free cash flow	1,508	2,245	883	6,276	3,745
Capital expenditure	(591)	(679)	(2,466)	1,813	(1,189)
Chng in investments	-	-	-	-	-
Other investing activities	(8)	0	(540)	-	-
Cash flow from investing (b)	(599)	(679)	(3,007)	1,813	(1,189)
Inc/dec in borrowings	274	457	1,335	572	200
Dividend paid (incl. tax)	-	-	-	-	-
Interest paid	(701)	(810)	(1,022)	(1,428)	(1,618)
Other financing activities	(135)	(137)	(259)	-	-
Cash flow from financing (c)	(561)	(489)	4,700	(6,404)	(1,418)
Net chng in cash (a+b+c)	(521)	(6)	1,688	(1,195)	90
Closing cash & cash equivalents	350	344	2,032	837	926

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